



Ensuring an efficient, effective and equitable Green Climate Fund

Transparency International

Today's climate financing landscape poses a number of governance challenges. It is characterised by fragmentation and weak coordination, begging better clarity, connectivity and accountability for those most affected by climate change.

The Green Climate Fund offers an opportunity to remedy this. It could become a global, centralised fund that is equitably and transparently governed, and grounded in the needs of the world's poorest.

In October, at its final meeting, the 40 members of the Green Climate Fund's Transitional Committee failed to reach consensus on a draft text outlining the fund's mandate, governance structures, and operational modalities. At COP 17 the debate will be reopened, but this time to the UNFCCC's 194 members.

As hosts of this year's COP, the South African Presidency needs to show decisive leadership, and facilitate a situation in which consensus can be reached. Cutting corners is not an option though. Details of the fund's design must be comprehensive and unequivocal, and incorporate robust safeguards against potential risks of corruption and mismanagement – risks which could undermine the fund's credibility, lessen value for money, and jeopardise the success of climate adaptation and mitigation actions.

In practice such safeguards mean that decision-making is consultative, budgets and money flows are transparent, decision-makers are accountable, and there is independent oversight watching in from outside. Without these, the fair, efficient and effective fund we are all hoping for will remain elusive.

Guiding principles

Key recommendation

The Green Climate Fund (GCF) needs to be grounded in the highest standards of transparency, mutual accountability and integrity at both policy and operational levels. The fund should ensure that mitigation and adaptation money is also used to increase national monitoring and reporting capacity. Countries with strong national systems should then be in a position to access financing directly from the GCF, with an emphasis on domestic accountability – from governments to people – in the determination of funding priorities.

The working definition of the GCF states that, 'the fund will operate in a transparent and accountable manner guided by efficiency and effectiveness.' These principles should be clearly outlined and applied at both policy and operational levels. The principle of integrity should also be included. Transparency International (TI) defines integrity as 'behaviours and actions consistent with a set of moral or ethical principles and standards, embraced by individuals as well as institutions that create a barrier to corruption.' This definition may provide guidance and support for the fund to embrace integrity as a guiding principle.

In practice, this may include that integrity standards are embodied in codes of conduct or codes of ethics which are binding on all relevant staff and stakeholders associated with the GCF. Such codes must be rigorously enforced, and integrity checks carried out, as appropriate, on people and institutions with which the fund conducts business.

Public disclosure and public participation

Key recommendation

The GCF should ensure that decision-making, monitoring, reporting and evaluation processes are meaningfully transparent.

The GCF should at minimum ensure that:

- all documents related to proposed, funded and to be funded projects are easily accessible to the public
- project proposals are published online within an appropriate period of time prior to a final decision on proposal acceptance or rejection
- mechanisms are in place to allow members of the public to submit their comments on project proposals or projects, and that those comments are publicly accessible
- regular feedback on submitted recommendations is regularly published and publicly available
- funding decisions and selection processes are fully transparent and include detailed information of the review of the potential beneficiary's qualifications and capacities to meet funding objectives and requirements.

TI recommends further that the GCF implement a Transparency or Information Disclosure Policy, which should be strictly maintained, regardless of the decentralised nature of the processes involved. This should stipulate the complete transparency of money receipt and expenditure, including payrolls

Citizen engagement

Key recommendation

Systems need to be put in place to make sure that the planning and prioritisation of projects is transparent and encourages local ownership and long-term sustainability by ensuring the participation of those most directly affected. Public consultation should be mandatory and formalised at the design phase of projects, and citizens and civil society organisations ought to be charged with monitoring and evaluating programmes and projects at various levels.

Consulting citizens and civil society organisations on the design, selection, management, implementation and verification of projects and programmes is key to ensuring that they are fair, efficient and effective.

The GCF currently proposes that, 'the Board will make arrangements, including developing and operating accreditation processes, to allow for effective participation by accredited observers in its meetings. The Board will invite, to participate as active observers: two civil society representatives, one each from developing and developed countries, and two private sector representatives, one each from developing and developed countries.'

While this provision is welcome, by enabling only one individual representing all of civil society in developed countries and one representing the same in developing countries, representation is simply not practical or even possible.

In this regard, TI recommends that a larger number of observers are accredited to participate in the fund. At least two people from each recognised UNFCCC constituency (one from developed and one from developing countries) should be admitted as observers.

Likewise, we support that the selection criteria, roles, responsibilities, obligations and rights of these observers as well as the process for their selection should be agreed upon and clarified in consultation with potential observer groups or constituencies.

The GCF also aims to include mechanisms developed by the board to, 'promote the input and participation of stakeholders, including private sector actors, civil society organizations, vulnerable groups, women, and indigenous peoples in the design, development and

implementation of the strategies and activities to be financed by the Fund.' This is again a welcome provision, but we recommend that such mechanisms gain a formalised position within the GCF structure to enable optimum citizen participation and accountability.

Monitoring, Evaluation and Oversight

Key recommendation

Independent, multi-stakeholder monitoring, evaluation and oversight are crucial for legitimacy and meaningful effect

The GCF aims to conduct, 'periodic independent evaluations of its performance' through an, 'operationally independent evaluation unit as part of the core structure of the Fund.' It has been stated that the head of the unit would be selected by, and report to, the Board and that, 'the frequency and types of evaluation to be conducted will be specified by the Unit in agreement with the Board.'

This latter provision may result in compromising the independence of the unit should the types of evaluation conducted be subject to 'agreement with the Board.' TI recommends that this provision be implemented with caution and monitored to assure against negative consequences.

While we welcome the proposal that, 'the COP may commission an independent assessment of the overall performance of the Fund, including Board performance,' greater clarity is needed regarding who or what body would conduct this assessment, under what conditions, and what the implications of the assessment results might be.

The GCF should guarantee strong oversight and regulatory institutions to protect funds against corruption and fraud, particularly when the introduction of infrastructure is technically complex and requires specialised knowledge. Comprehensive criteria must be developed for the monitoring, reporting and evaluation of projects. These should be adaptable to various contexts, while enabling systematic reporting, and driven through multi-stakeholder involvement including active civil society engagement.

The GCF should ensure the highest degrees of transparency, independence and integrity in performance and project evaluations to guarantee accountability and capture best practices for ongoing applications.

We consider it crucial that oversight bodies are staffed by salaried professionals with technical expertise, who have proven themselves to be free from conflicts of interest stemming from personal stakes in carbon markets, offset or adaptation projects.

Fiduciary principles and standards

Key recommendation

Robust, comprehensive and clear fiduciary principles and standards should be agreed upon and applied fairly to all global, regional, national or local actors responsible for or significantly involved in the allocations, delivery, finance and/or use of public money for climate change related actions. Governments and financial institutions – commercial and public – need to ensure optimum due diligence fiduciary standards compliance. Mechanisms and procedures need to be in place to monitor and evaluate the performance of public climate finance fiduciaries.

Fiduciary standards are meant to ensure professionalism, transparency, independence and value for money. At present, a common set of fiduciary standards has yet to be agreed upon internationally. The Global Environmental Facility (GEF) among others provides recommended Minimum Fiduciary Standards¹ for its implementing and executing agencies.

¹ <http://www.thegef.org/gef/sites/thegef.org/files/documents/C.31.6%20Fiduciary%20Standards.pdf>

These standards encompass a range of requirements incumbent on financing institutions regarding external financial audits, financial management and control frameworks, financial disclosure, code of ethics, internal audit, project appraisal standards (including safeguards) procurement processes, project monitoring and project-at-risk systems, evaluation and safeguards against corruption and fraud, including investigation functions, hotline support and whistleblower protection.

GCF fiduciary standards should maintain at least the existing minimum standards as those employed by the GEF. They should also be applied to all implementing agencies at international, regional, national, and sub-national levels.

In terms of anti-corruption safeguards, clear codes of conduct should be adopted and enforced to ward against potential conflicts of interest. To avoid potential conflicts of interest, members of the fund's board, secretariat and evaluation unit should not have been associated with the fund's trustee for a significant period of time before beginning their work with the fund.

To develop mutual trust and ensure fairness with respect to fiduciary standard compliance, we recommend that the GCF consider encouraging that all GCF participating governments succeed by ratify and/or adopting, implementing and enforcing the UN Convention Against Corruption.² Governments should also be encouraged to:

- Introduce and integrate anti-corruption safeguards into the design of adaptation and mitigation policies, programmes and actions
- Require mandatory reporting on anti-corruption programmes for recipients of public funds in all country programs, such as 'green' investments for which specific financial support may be designated.

TI further recommends that:

- These fiduciary standards and principles are commonly agreed amongst GCF stakeholders and with due engagement of non-governmental actors involved with or affected by GCF decisions, activities and/or activities
- The GCF Board and/or other relevant sub-actors ensure full transparency of agreed standards and principles, practices, agreements, fund performance reviews and regular compliance reports or updates regarding the standards and principles
- Accreditation processes which include the review of fiduciary standards enable sufficient transparency and public participation to ensure that decisions are unambiguous, fair and credible
- Accreditation reviews (through regular monitoring and evaluation processes) are sufficiently transparent to involve public participation and scrutiny to ensure the integrity and accountability of implementing entities.

Determining responsibility, liability and penalties

Key recommendation

Clear, unambiguous chains of accountability must be determined for all persons and entities responsible for public climate finance decisions, disbursements and uses. Legal and administrative policies, procedures and mechanisms must be in place to ensure due processes to determine accountability or liability and respective penalties and/or punishments in cases of corruption and fraud.

² <http://www.unodc.org/unodc/en/treaties/CAC/>

As a UN body, 'the Fund will enjoy such privileges and immunities as are necessary for the fulfilment of its purposes. The officials of the Fund will similarly enjoy such privileges and immunities as are necessary for the independent exercise of their official functions in connection with the Fund.'

This provision may be subject to abuse if fund officials are exempt from legal proceedings regarding cases of corruption, should they arise. Here it is recommended that such privileges and immunities be waived in cases where corruption involving public climate finance is highly suspected.

Under the GCF, the terms of board and alternate members are to be three years. Members can, 'be eligible to serve additional terms as determined by their constituency.' In order to ensure fair representation and sustained integrity of board members, enabling board members to serve more than one additional term may have negative impacts and could facilitate nepotism and cronyism. Notwithstanding, policies and procedures regarding conditions and processes for terminating membership should be established.

Processes for establishing committees and determining their mandates and terms of reference need to be transparent and as consultative as possible. Similarly, the procedures, processes for and mandates of appointing key roles in the GCF, e.g. the executive director of the fund secretariat, the head of the evaluation unit and the head of the independent investigation unit, should be as transparent as possible and open to public scrutiny.

Under the GCF, TI welcomes the inclusion of an 'independent integrity unit' empowered to investigate allegations of fraud and corruption. However, to what extent coordinated approaches between the fund and country-level anti-corruption agencies or judicial power may be effective remains ubiquitous and should be a carefully tested modality.

If a coordinated approach means to leave the initiative for investigating fraud and corruption to finance recipient countries, this could imply some significant risks. For instance, in TI's experience many countries fall short of providing adequate whistleblower protection, which can discourage the reporting of fraud and corruption. Additionally, in countries with weak institutions, evidence may be lost or tampered with, jeopardising the unit's ability to intervene and conduct its own investigation. Because of these risks, TI recommends that the unit:

- Has publicly available terms of reference that outline the purpose, authority, and accountability of its mandate and functions
- Conducts preventive anti-corruption reviews at the country level, and incorporates these reviews in its fiduciary principles and standards assessments associated with accreditation and/or monitoring and evaluation processes. Anti-corruption reviews should include an assessment of the relevant anti-corruption authority's capacity to investigate and prosecute cases of fraud and corruption, as well as the country's anti-corruption legal framework, including its whistleblower policy. Whether or not the country has ratified and adopted, and vigorously enforces the UN Convention Against Corruption serves as a useful basis for assessment
- Establishes clear procedures for the exchange of information on allegations, investigations and sanctions with the competent national authorities
- Maintains a truly independent status and is selected, elected or otherwise established through transparent, open processes. Criteria for unit staff should include demonstrated integrity and impartiality. The unit should be headed by an officer who reports to the GCF board, which ensures that the unit can fulfil its responsibilities objectively
- Publishes guidelines for processing cases, including standardised procedures for handling complaints it receives and managing cases before, during and after the investigation process

- Has a defined process for periodically reporting case trends. To enhance accountability and transparency, case trend reports and other information should be made available to appropriate bodies of the GCF.

If corrupt abuse or fraud is detected, those responsible should be promptly sanctioned and the relevant financial resources should be immediately recuperated.

Capacity building and guidance

Key recommendation

Within its funding windows, the GCF should take into account and support capacities in recipient countries to ensure effective, open governance. This includes the monitoring, reporting and evaluation of climate finance aimed for national adaptation or mitigation purposes.

The fund should ensure that mitigation and adaptation money is also used to increase national monitoring and reporting capacities. Countries with strong national systems should then be in a position to access financing directly from the GCF, with an emphasis on domestic accountability – from governments to people – in the determination of funding priorities.

We recommend that the GCF:

- Provides clear and consistent guidance to national implementing agencies on required standards in planning processes, the management of funds, the implementation of projects and monitoring and evaluation. Sufficient resources must be made available where necessary to build the capacity of national actors and institutions to meet these standards
- If beneficiary countries are unable to meet required fiduciary standards, the GCF should ensure that they receive the necessary technical assistance and capacity building programmes as well as accountancy and fiduciary packages and guidelines. Accreditation reviews should include clear instructions and timelines for these provisions.

Private sector engagement

Key recommendation

The GCF needs to ensure engagement with private sector includes mechanisms and procedures to ensure appropriate integrity and accountability of private sector entities receiving finance through the fund.

The private sector facility under the GCF which aims to, 'directly and indirectly finance private sector mitigation and adaptation activities at the national, regional and international levels' should also ensure that private sector actors receiving GCF finance follow the accreditation procedures described above.

Likewise, the GCF's aim to, 'promote the participation of private sector actors in developing countries, in particular local actors, including small and medium-sized enterprises and local financial intermediaries' should be bolstered by policies and procedures to ensure that such actors meet necessary due diligence and fiduciary standards and principles espoused by the fund.

Key recommendation

Robust environmental and social safeguards must be in place to protect ecosystems and communities against destruction, displacement or harm to health and livelihood. Mechanisms for appeals and redress must be ensured from the earliest phases of project design.

The GCF must develop and enforce clear and comprehensive safeguard policies to guard against the destruction of cultures, species and ecosystems. Legally protected areas must be preserved, as well as areas which have been either officially proposed for protection or recognised as protected by customary practices or local communities.

These safeguards must also ensure that local communities and indigenous peoples are not forcibly removed from their land. Relocation should only take place in instances of the free, prior and informed consent of affected communities, and should ensure for fair compensation or the option of return.

Environmental and social safeguard policies should be developed through international, multi-stakeholder processes. To ensure that they are respected, independent bodies should be established at both national and international levels to respond to and investigate reports of grievance or calls for redress throughout the design and implementation of projects. These bodies should publish regular, standardised reports of their activities.